

DETROIT ACADEMY OF ARTS AND SCIENCES
FINANCIAL STATEMENTS
TOGETHER WITH INDEPENDENT AUDITORS' REPORTS
JUNE 30, 2007

DETROIT ACADEMY OF ARTS AND SCIENCES
FINANCIAL STATEMENTS
JUNE 30, 2007

TABLE OF CONTENTS

<u>Page(s)</u>	
Independent Auditors' Report on Financial Statements	1-2
Management's Discussion and Analysis	3-7
Basic Financial Statements	
Academy-wide Financial Statements:	
Statement of Net Assets	8
Statement of Activities	9
Fund Financial Statements	
Governmental Funds:	
Balance Sheet	10
Statement of Revenues, Expenditures and Changes in Fund Balances – Governmental Funds	11
Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balances of Governmental Funds to the Statement of Activities	12
Fiduciary Funds – Statement of Fiduciary Assets and Liabilities	13
Required Supplemental Information	
Budgetary Comparison Schedule – General Fund	14
Notes to Financial Statements	15-22



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INDEPENDENT AUDITORS' REPORT ON FINANCIAL STATEMENTS

To the Board of Directors
Detroit Academy of Arts and Sciences

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate fund information of the Detroit Academy of Arts and Sciences as of and for the year ended June 30, 2007, as listed in the accompanying table of contents. These financial statements are the responsibility of the Academy's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in "Government Auditing Standards", issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the governmental activities, each major fund and the aggregate remaining fund information of the Detroit Academy of Arts and Sciences as of June 30, 2007, and the respective changes in financial position for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

In accordance with "Government Auditing Standards", we have also issued our report dated October 12, 2007 on our consideration of the Detroit Academy of Arts and Sciences' internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with "Government Auditing Standards" and should be considered in assessing the results of our audit.

The management's discussion and analysis (identified in the table of contents) is not a required part of the basic financial statements but is supplemental information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consist principally of inquiries of management, regarding the methods of measurement and presentation of the required supplemental information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the Academy's basic financial statements. The accompanying required supplemental information, as identified in the table of contents, is not a required part of the basic financial statements. The supplemental information is information required by the Governmental Accounting Standards Board. The required supplemental information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.



GREGORY TERRELL & COMPANY
Certified Public Accountants

October 12, 2007

DETROIT ACADEMY OF ARTS AND SCIENCES
MANAGEMENT'S DISCUSSION AND ANALYSIS
AS OF JUNE 30, 2007

The Academy As A Whole

Recall that the statement of net assets (deficit) provides the perspective of the Academy as a whole. Table 1 provides a summary of the Academy's net assets as of June 30, 2007 and 2006:

TABLE 1	Governmental Activities	
	June 30 2007	2006
	(in millions)	
Assets		
Current and other assets	\$ 9.5	\$ 9.2
Capital assets	<u>24.4</u>	<u>25.4</u>
Total assets	33.9	34.6
Liabilities		
Current liabilities	4.3	5.2
Long-term liabilities	<u>31.5</u>	<u>32.0</u>
Total liabilities	<u>35.8</u>	<u>37.2</u>
Net Assets (Deficit)		
Invested in property and equipment – Net of related debt	(7.2)	(7.1)
Restricted	4.8	4.8
Unrestricted	<u>.5</u>	<u>(.3)</u>
Total net assets (deficit)	(1.9)	(2.6)

The above analysis focuses on the net assets (see Table 1). The change in net assets (see Table 2) of the Academy's governmental activities is discussed below. The Academy's net deficit was (\$1,875,525) at June 30, 2007. Capital assets, net of related debt totaling (\$7,180,389), compares the original cost, less depreciation of the Academy's capital assets to long-term debt used to finance the acquisition of those assets. Most of the debt will be repaid from General Fund revenue as the debt service comes due. Restricted net assets are reported separately to show legal constraints from debt covenants and enabling legislation that limit the academy's ability to use those net assets for day-to-day operations. The unrestricted net asset of \$913,199 is composed of an operational surplus, on a governmental funds basis, of \$1,508,203, and accrued interest payable of (\$595,004) which is not included as a liability in governmental funds because this liability will be paid from the subsequent year's revenue.

The \$1,508,203 in unrestricted net results of operations from governmental activities mentioned above represents the accumulated results of all past years' operations.

DETROIT ACADEMY OF ARTS AND SCIENCES
MANAGEMENT'S DISCUSSION AND ANALYSIS
AS OF JUNE 30, 2007

The operating results of the General Fund will have a significant impact on the change in unrestricted net assets from year to year.

The results of this year's operations for the Academy as a whole are reported in the statement of activities (see Table 2), which shows the changes in net assets for fiscal year 2007 compared with fiscal year 2006.

Table 2	<u>Governmental Activities</u> <u>(in millions)</u>	
	2007	2006
Revenue		
Program revenue – Operating grants	\$2.5	\$1.8
General revenue:		
State foundation allowance	15.9	16.8
Other	<u>0.4</u>	<u>0.3</u>
Total Revenue	18.8	18.9
Functions/Program Expenses		
Instruction	7.3	6.7
Support services	6.5	7.8
Food Services	0.5	0.6
Interest on long-term debt	2.6	2.5
Depreciation (unallocated)	<u>1.2</u>	<u>1.2</u>
Total functions/program expenses	18.1	18.8
Increase in Net Assets	\$.7	\$.1

Increase (Decrease) in Net Assets

As reported in the statement of activities, the cost of all of our governmental activities this year was \$18,079,121. Certain activities were partially funded from those who benefited from the programs \$85,250 or by other governments and organizations that subsidized certain programs with grants and contributions \$2,492,887. We paid for the remaining “public benefit” portion of our governmental activities with \$15,931,689 in state foundation allowance, and with our other revenues, i.e., interest and other revenues.

The Academy experienced an increase in net assets of \$720,189. The key reason for the change in net assets was the excess of revenues over expenditures as budgeted.

As discussed above, the net cost shows the financial burden that was placed on the Academy by each of these functions. Since unrestricted state aid constitutes the vast majority of Academy operating revenue sources, the Board of Directors and administration must annually evaluate the needs of the Academy and balance those needs with State-prescribed available unrestricted resources.

DETROIT ACADEMY OF ARTS AND SCIENCES
MANAGEMENT'S DISCUSSION AND ANALYSIS
AS OF JUNE 30, 2007

The Academy's Funds

As we noted earlier, the Academy uses funds to help it control and manage money for particular purposes. Looking at funds helps the reader consider whether the Academy is being accountable for the resources the State and others provide to it and may provide more insight into the Academy's overall financial health.

As the Academy completed this year, the governmental funds reported a combined fund balance of \$6,327,571, which is an increase of \$1,238,794 from last year. The primary reasons for the increase relates to the excess of revenues over expenditures in the General Fund in the amount of \$1,238,146.

In the General Fund, our principal operating fund, the fund balance increased from a \$270,057 to \$1,508,203. The change is due mainly to:

- budgeted/planned excess of revenues over expenditures of \$833,602, and
- various cost-cutting efforts in several areas primarily reflecting the lower enrollment.

The Debt Service Fund showed a fund balance decrease of \$19,625. Debt Service Fund balance is reserved since it can only be used to pay debt service obligations.

The Capital Projects Fund balance increased \$20,273, due to investment earnings of funds held.

General Fund Budgetary Highlights

Over the course of the year, the Academy revises its budget as it attempts to deal with unexpected changes in revenues and expenditures. State law requires that the budget be amended to ensure that expenditures do not exceed appropriations. The final amendment to the budget was adopted in June 2007. A schedule showing the Academy's original and final budget amounts compared with amounts actually paid and received is provided as required supplemental information of these financial statements.

There were significant revisions made to the 2006-2007 General Fund original budget. Budgeted revenues were decreased \$492,216 principally due to:

An increase in Federal grant revenues resulting from carryover of 2005-2006 grant monies that was unexpended as of June 30, 2006 in the approximate amount of \$72,300 and the amendment of expected 2006-

DETROIT ACADEMY OF ARTS AND SCIENCES
MANAGEMENT'S DISCUSSION AND ANALYSIS
AS OF JUNE 30, 2007

- 2007 grant monies to the actual amount received increasing these funds in the approximate amount of \$211,000
- A decrease in State Aid revenue resulting from lower actual student enrollment than original estimates of \$800,610.

Budgeted expenditures were decreased \$243,008 in various accounts.

Capital Assets and Debt Administration

Capital Assets

As of June 30, 2007, the Academy had \$24,415,261 invested in a broad range of capital assets, including land, buildings, furniture, and equipment and related depreciation. This amount represents a net decrease (including additions, disposals, and depreciation) of approximately \$977,188, or 4 percent, from last year, resulting principally from the continued depreciation of the Academy's assets.

	2007	2006
Land	\$ 440,420	\$ 440,420
Buildings and building improvements	27,237,588	27,237,588
Furniture and equipment	3,624,535	3,453,275
Total capital assets	\$ 31,302,543	\$ 31,131,283

This year's additions totaled \$171,260.

The Academy has no plans to spend the remaining moneys in the Capital Projects fund, approximating \$428,000, during the 2007-2008 fiscal year. We present more detailed information about our capital assets in the notes to the financial statements.

Debt

At the end of this year, the Academy had \$29,200,000 in bonds outstanding versus \$29,600,000 in the previous year – a change of 1 percent. Those bonds consisted of the following:

\$29,200,000 serial bonds due in annual installments of \$400,000 to \$2,500,000 through October 31, 2031, interest at 7.5 to 8 percent.

DETROIT ACADEMY OF ARTS AND SCIENCES
MANAGEMENT'S DISCUSSION AND ANALYSIS
AS OF JUNE 30, 2007

The Academy is party to a capital lease, the remaining balance of which is \$2,823,353 at June 30, 2007, payable in monthly installments of \$25,000 through September 2015.

We present more detailed information about our long-term liabilities in the notes to the financial statements.

Economic Factors and Next Year's Budgets and Rates

Our officials and administration consider many factors when setting the Academy's 2007 fiscal year budget. One of the most important factors affecting the budget is our student count. The state foundation revenue is determined by multiplying the blended student count by the foundation allowance per pupil. The blended count for the 2007 fiscal year is 25 percent and 75 percent of the February 2007 and September 2007 student counts, respectively. The 2008 budget was adopted in June 2007, based on an estimate of students that will be enrolled in September 2007. Approximately 90 percent of total General Fund revenue is from the foundation allowance. As a result, Academy funding is heavily dependent on the State's ability to fund local school operations. Based on early enrollment data at the start of the 2007 school year, we anticipate that the fall student count will be approximately 125 students short of the estimates used in creating the 2007 budget. Once the final student count and related per pupil funding is validated, State law requires that Academy to amend the budget if actual Academy resources are not sufficient to fund original appropriations.

Since the Academy's revenue is heavily dependent on state funding and the health of the State's School Aid Fund, the actual revenue received depends on the State's ability to collect revenues to fund its appropriation to academies. The State periodically holds a revenue-estimating conference to estimate revenues. Based on the results of the most recent conference, the State estimates funds are sufficient to fund the appropriation. The Legislature will hold another revenue-estimating conference in early calendar 2008. No change in the State's ability to fund the appropriation is expected.

DETROIT ACADEMY OF ARTS AND SCIENCES
STATEMENT OF NET ASSETS
JUNE 30, 2007

	Governmental Activities
ASSETS	
Current Assets:	
Cash and Cash Equivalents	\$ 807,455
Due from Other Governmental Units	3,611,443
Restricted Assets	4,548,008
Due from Other Funds	500,550
Prepaid Expenditures	<u>29,277</u>
Total Current Assets	<u>9,496,733</u>
Noncurrent Assets:	
Capital Assets	31,302,543
Less Accumulated Depreciation	<u>(6,887,282)</u>
Total Noncurrent Assets	<u>24,415,261</u>
Total Assets	<u>33,911,994</u>
LIABILITIES AND NET ASSETS	
Current Liabilities	
Accounts Payable	313,288
Accrued Expenditures	1,795,925
Due to Other Funds	500,550
Note Payable	1,154,403
Current Portion of Long-Term Debt	<u>505,714</u>
Total Current Liabilities	<u>4,269,880</u>
Long-Term Debt Net of Current Portion	<u>31,517,639</u>
Total Liabilities	<u>35,787,519</u>
Net Assets	
Invested in Capital Assets Net of Related Debt	(7,180,389)
Restricted for Debt Service	4,391,665
Restricted for Capital Projects	427,703
Unrestricted	<u>485,496</u>
Total Net Assets	<u>(1,875,525)</u>
Total Liabilities and Net Assets	<u>\$ 33,911,994</u>

The accompanying notes are an integral part of this financial statement.

**DETROIT ACADEMY OF ARTS AND SCIENCES
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2007**

Function / Programs	<u>Expenses</u>	<u>Program Revenues</u>		Governmental Activities Net (expenses) Revenue and Changes in Net Assets
		<u>Charges for Services</u>	<u>Operating Grants</u>	
Governmental Activities:				
Instruction	\$ 7,314,351	\$ -	\$ 2,269,900	\$ (5,044,451)
Support Services	6,524,306	-	-	(6,524,306)
Food Services	480,263	85,250	259,069	(135,944)
Community Services	78,318	-	-	(78,318)
Interest on Debt	2,569,517	-	-	(2,569,517)
Unallocated Depreciation	<u>1,148,448</u>	<u>-</u>	<u>-</u>	<u>(1,148,448)</u>
Total Governmental Activities:	<u>18,115,203</u>	<u>85,250</u>	<u>2,528,969</u>	<u>(15,500,984)</u>
General Revenues:				
State of Michigan school aid unrestricted				15,931,689
Investment Revenue				<u>289,484</u>
Total General Revenues				<u>16,221,173</u>
Change in Net Assets				720,189
Net Assets , Beginning of Year				<u>(2,595,714)</u>
Net Assets , Ending of Year				<u>\$ (1,875,525)</u>

The accompanying notes are an integral part of this financial statement.

**DETROIT ACADEMY OF ARTS AND SCIENCES
BALANCE SHEET
GOVERNMENTAL FUNDS
JUNE 30, 2007**

	<u>General</u>	<u>Capital Projects Fund</u>	<u>Debt Service Fund</u>	<u>Other Nonmajor Governmental Funds</u>	<u>Total Governmental Funds</u>
ASSETS					
Assets					
Cash and Cash Equivalents	\$ 794,856	\$ 427,703	\$ 4,120,305	\$ 12,599	\$ 5,355,463
Due from Other Governmental Units	3,370,075	-	-	241,368	3,611,443
Due from Other Fund	229,190	-	271,360	-	500,550
Prepaid Expenditures	29,277	-	-	-	29,277
Total Assets	<u>4,423,398</u>	<u>427,703</u>	<u>4,391,665</u>	<u>253,967</u>	<u>9,496,733</u>
LIABILITIES AND FUND BALANCES					
Liabilities					
Accounts Payable	288,511	-	-	24,777	313,288
Accrued Expenditures	1,200,921	-	-	-	1,200,921
Due to Other Funds	271,360	-	-	229,190	500,550
Note Payable	1,154,403	-	-	-	1,154,403
Total Liabilities	<u>2,915,195</u>	<u>-</u>	<u>-</u>	<u>253,967</u>	<u>3,169,162</u>
Fund Balances					
Reserved for:					
Debt Service	-	-	4,391,665	-	4,391,665
Capital Projects	-	427,703	-	-	427,703
Prepaid Expenditures	29,277	-	-	-	29,277
Unreserved, reported in:					
Unrestricted	1,478,926	-	-	-	1,478,926
Total Fund Balances	<u>1,508,203</u>	<u>427,703</u>	<u>4,391,665</u>	<u>-</u>	<u>6,327,571</u>
Total Liabilities and Fund Balances	<u>\$ 4,423,398</u>	<u>\$ 427,703</u>	<u>\$ 4,391,665</u>	<u>\$ 253,967</u>	<u>\$ 9,496,733</u>
Total Governmental Fund Balances					\$ 6,327,571
Amounts reported for governmental activities in the Statement of Net Assets are different because:					
Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds.					24,415,261
Long term liabilities, including bonds payable, are not due and payable in the current period and therefore are not reported in the funds.					(32,023,353)
Accrued interest payable is not included as a liability in governmental funds					(595,004)
Net assets of governmental activities					<u>\$ (1,875,525)</u>

The accompanying notes are an integral part of this financial statement.

DETROIT ACADEMY OF ARTS AND SCIENCES
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
FOR THE YEAR ENDED JUNE 30, 2007

	<u>General Fund</u>	<u>Capital Projects Fund</u>	<u>Debt Service Fund</u>	<u>Other Nonmajor Governmental Funds</u>	<u>Total Governmental Funds</u>
REVENUES:					
Local Sources:					
Investment Income	\$ 87,462	\$ 20,273	\$ 181,749	\$ -	\$ 289,484
Other	-	-	-	85,250	85,250
State Sources	16,752,847	-	-	-	16,752,847
Federal Sources	1,448,742	-	-	259,069	1,707,811
Total Revenues	<u>18,289,051</u>	<u>20,273</u>	<u>181,749</u>	<u>344,319</u>	<u>18,835,392</u>
EXPENDITURES:					
Current:					
Instruction:					
Basic Programs	6,850,764	-	-	-	6,850,764
Added Needs	463,587	-	-	-	463,587
Total Instruction	<u>7,314,351</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>7,314,351</u>
Support Services:					
Pupil	855,915	-	-	-	855,915
Instructional Support	889,892	-	-	-	889,892
General Administration	1,227,052	-	-	-	1,227,052
School Administration	823,371	-	-	-	823,371
Business	637,078	-	-	-	637,078
Operations and Maintenance	1,757,462	-	-	-	1,757,462
Transportation	10,970	-	-	-	10,970
Central	322,566	-	-	-	322,566
Total Support Services	<u>6,524,306</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>6,524,306</u>
Capital Outlay	171,260	-	-	-	171,260
Community Services	16,978	-	-	61,340	78,318
Food Service	-	-	-	480,263	480,263
Debt Service:					
Principal Retirement-Bonds	-	-	400,000	-	400,000
Principal Retirement-Land Contract	-	-	98,587	-	98,587
Interest-Bonds	-	-	2,328,100	-	2,328,100
Interest-Land Contract	-	-	201,413	-	201,413
Total Debt Service	<u>-</u>	<u>-</u>	<u>3,028,100</u>	<u>-</u>	<u>3,028,100</u>
Total Expenditures	<u>14,026,895</u>	<u>-</u>	<u>3,028,100</u>	<u>541,603</u>	<u>17,596,598</u>
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	<u>4,262,156</u>	<u>20,273</u>	<u>(2,846,351)</u>	<u>(197,284)</u>	<u>1,238,794</u>
OTHER FINANCING SOURCES (USES):					
Financing Sources	-	-	-	-	-
Operating Transfers In	-	-	2,826,726	197,284	3,024,010
Operating Transfers Out	(3,024,010)	-	-	-	(3,024,010)
NET CHANGE IN FUND BALANCES	<u>1,238,146</u>	<u>20,273</u>	<u>(19,625)</u>	<u>-</u>	<u>1,238,794</u>
Beginning of Year	270,057	407,430	4,411,290	-	5,088,777
End of Year	<u>\$ 1,508,203</u>	<u>\$ 427,703</u>	<u>\$ 4,391,665</u>	<u>\$ -</u>	<u>\$ 6,327,571</u>

The accompanying notes are an integral part of this financial statement.

**DETROIT ACADEMY OF ARTS AND SCIENCES
RECONCILIATION OF THE STATEMENT OF REVENUES,
EXPENDITURES AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS
TO THE STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2007**

Net change in fund balances total governmental funds	\$ 1,238,794
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Amounts reported for governmental activities in the statement of activities are different because:

Governmental funds report capital outlays as expenditures in the statement of activities. These costs are allocated over their estimated useful lives as depreciation.

Depreciation expense	(1,148,448)
Capital Outlay	171,260

Accrued interest is recorded in the statement of activities when incurred; it is not reported in governmental funds until paid.	(40,004)
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Repayment of principal on long-term debt is an expenditure in the governmental funds, but not in the statement of activities (because it is a reduction of liabilities)

Long-term debt:	
Bonds payable	400,000
Land contract payable	<u>98,587</u>

Change in net assets of governmental activities	<u>\$ 720,189</u>
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The accompanying notes are an integral part of this financial statement.

**DETROIT ACADEMY OF ARTS AND SCIENCES
FIDUCIARY FUND
STATEMENT OF FIDUCIARY ASSETS AND LIABILITIES
FOR THE YEAR ENDED JUNE 30, 2007**

	Student Activities - Agency Fund
Assets - Due from Student Groups	\$ <u>644</u>
Liabilities - Cash Overdraft	\$ <u>644</u>

The accompanying notes are an integral part of this financial statement.

**DETROIT ACADEMY OF ARTS AND SCIENCES
REQUIRED SUPPLEMENTAL INFORMATION
BUDGETARY COMPARISON SCHEDULE
GENERAL FUND
FOR THE YEAR ENDED JUNE 30, 2007**

	Budgeted Amounts		Actual	Variance with
	<u>Original</u>	<u>Final</u>	<u>Amounts</u>	<u>Positive / (Negative)</u>
REVENUES:				
Local	\$ 106,500	\$ 86,500	\$ 87,462	\$ 962
State Sources	17,549,250	16,748,640	16,752,847	(4,207)
Federal Sources	<u>1,054,447</u>	<u>1,382,841</u>	<u>1,448,742</u>	<u>(65,901)</u>
Total Revenues	<u>18,710,197</u>	<u>18,217,981</u>	<u>18,289,051</u>	<u>71,070</u>
EXPENDITURES:				
Current:				
Instruction:				
Basic Programs	6,951,481	7,037,648	6,850,764	186,884
Added Needs	<u>1,107,358</u>	<u>390,535</u>	<u>463,587</u>	<u>(73,052)</u>
Total Instruction	<u>8,058,839</u>	<u>7,428,183</u>	<u>7,314,351</u>	<u>113,832</u>
Support Services:				
Pupil	669,473	910,572	855,915	54,657
Instructional Support	403,518	919,105	889,892	29,213
General Administration	981,005	1,000,819	1,227,052	(226,233)
School Administration	923,316	914,987	823,371	91,616
Business	1,017,228	753,679	637,078	116,601
Operations and Maintenance	2,254,130	2,110,656	1,757,462	353,194
Transportation	2,000	4,000	10,970	(6,970)
Central	<u>274,594</u>	<u>380,233</u>	<u>322,566</u>	<u>57,667</u>
Total Support Services	<u>6,525,264</u>	<u>6,994,051</u>	<u>6,524,306</u>	<u>469,745</u>
Capital Outlay	<u>-</u>	<u>-</u>	<u>171,260</u>	<u>(171,260)</u>
Community Services	<u>6,850</u>	<u>49,047</u>	<u>16,978</u>	<u>32,069</u>
Debt Retirement	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total Expenditures	<u>14,590,953</u>	<u>14,471,281</u>	<u>14,026,895</u>	<u>444,386</u>
Revenues Over (Under) Expenditures	<u>4,119,244</u>	<u>3,746,700</u>	<u>4,262,156</u>	<u>515,456</u>
OTHER FINANCING SOURCES (USES):				
Operating Transfers In (Out)	<u>(3,036,433)</u>	<u>(2,913,100)</u>	<u>(3,024,010)</u>	<u>(110,910)</u>
NET CHANGE IN FUND BALANCE	<u>1,082,811</u>	<u>833,600</u>	<u>1,238,146</u>	<u>404,546</u>
Beginning of Year	<u>270,057</u>	<u>270,057</u>	<u>270,057</u>	<u>-</u>
End of Year	<u>\$ 1,352,868</u>	<u>\$ 1,103,657</u>	<u>\$ 1,508,203</u>	<u>\$ 404,546</u>

The accompanying notes are an integral part of this financial statement.

DETROIT ACADEMY OF ARTS AND SCIENCES
NOTES TO FINANCIAL STATEMENTS
AS OF JUNE 30, 2007

(1) **ORGANIZATION**

Detroit Academy of Arts and Sciences (the "Academy") is a Public School Academy (K-12). The State of Michigan has delegated to Oakland University the responsibility of authorizing the establishment of public school academies. Oakland University approved the establishment of Detroit Academy of Arts and Sciences pursuant to the Michigan School Code of 1976 ("Code"), as amended.

The accounts of Rock Property Management, Inc. are presented as a blended component unit of the Academy under criterion established by Governmental Accounting Standards Board Statement No. 14. Rock Property Management, Inc. is a legally separate nonprofit corporation formed by the Academy to issue and service debt used to purchase the majority of the Academy's property, plant and equipment. Rock Property Management, Inc. is fiscally dependent upon the Academy and provides services exclusively to the Academy. The Academy leases its facilities from Rock Property Management, Inc. under capital leases that provide for transfer of the facilities' title after the associated long-term debt is repaid.

(2) **ACADEMY-WIDE AND FUND FINANCIAL STATEMENTS**

The academy-wide financial statements (i.e., the statement of net assets and the statement of activities) report information on all of the non-fiduciary activities of the Academy. For the most part, the effect of inter-fund activity has been removed from these statements. All of the Academy's activities are classified as governmental activities.

The statement of activities, demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. *Direct* expenses are those that are clearly identifiable with a specific function or segment. *Program revenues* include: 1) charges to customers who purchase, use or directly benefit from goods or services by a given function or segment and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. State Foundation Aid and other unrestricted items are not included as program revenues but instead as *general revenues*.

Measurement focus, basis of accounting, and financial statement presentation

The academy-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting, as are the fiduciary fund financial statements. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

DETROIT ACADEMY OF ARTS AND SCIENCES
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2007
(Continued)

(2) **ACADEMY-WIDE AND FUND FINANCIAL STATEMENTS** (cont'd)

Governmental fund financial statements are reported using the current *financial resources measurement focus* and the *modified accrual basis of accounting*. Revenues are considered to be *available* when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose the Academy considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due.

State and federal aid and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. All other revenue items are considered to be measurable and available only when cash is received by the Academy.

The Academy reports the following major governmental funds:

The *general fund* is the Academy's primary operating fund. It accounts for all financial resources of the Academy, except those required to be accounted for in another fund.

The *debt services fund* accounts for the resources accumulated and payments made for principal and interest on long-term general obligation debt of governmental funds.

The *capital projects fund* is used to record bond proceeds or other revenue and disbursements of monies specifically designed for acquiring new school sites, buildings, equipment, and for major remodeling and repairs. The fund is retained until the purpose for which the fund was created has been accomplished.

The Academy reports the following non-major governmental fund:

The *school service fund* is the Academy's primary non-major fund. It is used to account for food services operations. It is a subsidiary operation and obligation of the General Fund.

The *agency fund* is a fiduciary fund used to record transactions of student groups for school and school-related purposes. The funds are segregated and held in trust for the students.

DETROIT ACADEMY OF ARTS AND SCIENCES
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2007
(Continued)

(3) **SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

The financial statements have been prepared in accordance with the accounting principles outlined in the Michigan School Accounting Manual. The significant accounting policies followed by Detroit Academy of Arts and Sciences (the "Academy") are described below:

Cash Equivalents

Cash equivalents include short-term, highly liquid investments that are readily convertible to cash.

Restricted Assets

The unspent bond proceeds and related interest of the Capital Projects Fund and the Debt Service Fund require amounts to be set aside for construction and the repayment of bond principal, respectively. These amounts have been classified as restricted assets and total \$4,548,008 at June 30, 2007.

Capital Assets

Capital assets purchased or acquired are capitalized at historical cost or estimated historical cost. Donated fixed assets are valued at their estimated fair market value on the date received.

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend assets lives are not capitalized. Improvements are capitalized and depreciated over the remaining useful lives of the related fixed assets.

Depreciation on all assets is provided on the straight-line basis over the estimated useful lives as follows:

Buildings and improvements	20-40 years
Furniture and equipment	3-10 years

The Academy's capitalization policy is individual amounts exceeding \$500 and an estimated useful life in excess of three years.

DETROIT ACADEMY OF ARTS AND SCIENCES
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2007
(Continued)

(3) **SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont'd)**

Long-Term Obligations

In the Academy-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the statement of net assets. Bond issuance costs are capitalized as part of the building costs and amortized over the term of the related debt, which corresponds to the life of the building.

In the Fund financial statements, the face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources while discounts are reported as other financing uses. Issuance costs are reported as debt service expenditures.

Revenue Recognition

All grant and contract revenues are recognized only to the extent earned.

Use of Estimates

The preparation of general purpose financial statement in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reported period. Actual results could differ from those estimates.

Budgets and Budgetary Accounts

The General Fund and School Service Fund budgets were adopted on a basis consistent with accounting principles generally accepted in the United States of America and in compliance with the Uniform Budgeting and Accounting (P.A. 621 of 1978). The budget was adopted but not posted to the website.

For the year end June 30, 2007, expenditures exceeded appropriations as follows:

	<u>Budget</u>	<u>Actual</u>	<u>Variance</u>
General Fund			
Added Needs	\$ 390,535	\$ 458,587	\$ (73,052)
General Administration	1,000,819	2,050,423	(226,233)
Transportation	4,000	10,970	(6,970)
Capital Outlay	-0-	171,260	(171,260)

DETROIT ACADEMY OF ARTS AND SCIENCES
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2007
(Continued)

(4) **DEPOSITS AND INVESTMENTS**

State law authorizes the Academy to make deposits in the accounts of federally insured financial institutions. Cash held by fiscal agents or trustees is secured in accordance with the requirements of the agency or trust agreement.

Custodial Credit Risk of Bank Deposits

Custodial credit risk is the risk that in the event of bank failure, the Academy's deposits may not be returned by the bank. The Academy believes that due to the dollar amounts of cash deposits and the limits of FDIC insurance, it is impractical to insure all bank deposits. As a result, the Academy evaluates each financial institution it deposits Academy funds with and assesses the level of risk of each financial institution; only those institutions with an acceptable estimated risk level are used as depositories.

Custodial Credit Risk of Investments

Custodial credit risk is the risk that in the event of the failure of the counterparty, the Academy will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The Academy's policy does not address custodial credit risk. The Academy does not have investments with custodial credit risk.

Interest Rate Risk

Interest rate risk is the risk that the value of investments will decrease as a result of a rise in interest rates. The Academy's investment policy does not restrict investment maturities. The Academy's policy minimizes interest rate risk by requiring the structuring of the investment portfolio so that securities mature to meet cash requirements of the Debt Service and Capital Projects Funds.

Credit Risk

State law limits investments in commercial paper to the top two ratings issued by nationally recognized statistical rating organizations. The Academy's investment policy does not further limit its investment choices.

At the year end, the maturities of investments and the credit quality ratings of debt securities (other than the U.S. government) are as follows:

<u>Investment</u>	<u>Fair Value</u>	<u>Maturities/ Weighted Average Maturities</u>	<u>Rating</u>	<u>Rating Organization</u>
Investment Pool	\$4,548,008	1 day	Aaa	Moody's

DETROIT ACADEMY OF ARTS AND SCIENCES
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2007
(Continued)

(4) DEPOSITS AND INVESTMENTS (cont'd)

Investments consist of investment pools that are held by the trust department of the bank and regulated by the Michigan Banking Act. Amounts are restricted assets for future payment of bond interest and principal and future construction activities funded by the Academy's bonds.

Concentration of Credit Risk

The Academy places no limit on the amount the Academy may invest in any one issuer. The Academy's policy does not address concentration of credit risk.

Foreign Currency Risk

Foreign currency risk is the risk that an investment denominated in the currency of a foreign country could reduce its U.S. dollar value as a result of changes in foreign currency exchange rates. State law and the Academy's policy prohibit investment in foreign currency.

(5) CAPITAL ASSETS

A summary of capital assets is presented below:

	Balance July 1, 2006	Additions	Retirements	Balance June 30, 2007
Land	\$ 440,420	\$ -	\$ -	\$ 440,420
Building & Building improvements	27,237,588	-	-	27,237,588
Furniture and equipment	<u>3,453,275</u>	<u>171,260</u>	<u>-</u>	<u>3,624,535</u>
	\$ 31,131,283	\$ 171,260	\$ -	\$ 31,302,543
Less Accumulated Depreciation	<u>5,738,834</u>	<u>1,148,448</u>	<u>-</u>	<u>6,887,282</u>
Net capital assets	<u>\$ 25,392,449</u>	<u>\$ 977,188</u>	<u>\$ -</u>	<u>\$ 24,415,261</u>

Depreciation for fiscal year ended June 30, 2007 amounted to \$1,148,448. The Academy determined that it was impractical to allocate depreciation to the various Academy activities as the assets serve multiple functions.

(6) NOTE PAYABLE

The \$1,154,403 note payable represents the outstanding balance on a \$6,500,000 state aid anticipation note. The note calls for monthly payments of principal and interest from the Academy's state aid funds or general funds. The note carries at a rate of 6.50% and is scheduled to mature in August 2007.

DETROIT ACADEMY OF ARTS AND SCIENCES
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2007
(Continued)

(7) LONG-TERM DEBT

Through Rock Property Management, Inc., the Academy issued bonds through the Michigan Municipal Bond Authority to provide for the acquisition and construction of major capital facilities and the acquisition of certain equipment. The general obligation bonds are direct obligations, collateralized by the underlying fixed assets, and pledge the full faith and credit of the Academy. The Academy is required to transfer approximately 20 percent of its annual state aid membership revenue as lease payments to its bond trustee to be held for future payments of principal and interest.

The Academy is required to meet certain financial performance measures under the terms of the bond.

Through Rock Property Management, Inc., the Academy entered into a land contract to purchase real property during the year ended June 30, 2006.

Long-term debt activity can be summarized as follows:

Governmental Activities	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Bonds	\$29,600,000	\$ -	\$ 400,000	\$29,200,000	\$ 400,000
Land Contract	<u>2,921,940</u>	<u>-</u>	<u>98,587</u>	<u>2,823,353</u>	<u>105,714</u>
Total	<u>\$32,521,940</u>	<u>\$ -</u>	<u>\$ 498,587</u>	<u>\$32,023,353</u>	<u>\$ 505,714</u>

Annual debt service requirements to maturity for the above obligations are as follows:

	Governmental Activities		
	Principal	Interest	Total
2008	\$ 505,714	2,492,386	2,998,100
2009	513,356	2,454,744	2,968,100
2010	621,551	2,412,799	3,034,350
2011	630,338	2,366,512	2,996,850
2012	739,760	2,315,840	3,055,600
2013-2017	5,712,634	10,463,786	16,176,420
2018-2022	5,000,000	8,359,900	13,359,900
2023-2027	7,400,000	5,928,000	13,328,000
2028-2032	<u>10,900,000</u>	<u>2,324,000</u>	<u>13,224,000</u>
Total	<u>\$ 32,023,353</u>	<u>\$ 39,117,967</u>	<u>\$ 71,141,320</u>

DETROIT ACADEMY OF ARTS AND SCIENCES
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2007
(Continued)

(7) **LONG-TERM DEBT** (cont'd)

Government Activities

Long-term debt consists of the following:

\$30,000,000 serial bonds due in annual installments of \$400,000 to \$2,500,000 through October 31, 2031, interest at 7.5 percent to 8 percent.	\$ 29,200,000
Land contract payable in monthly installments of \$25,000 through September 2015, interest at 7 percent.	<u>2,823,353</u>
	<u>\$ 32,023,353</u>

(8) **DEFINED BENEFIT PENSION PLAN**

Plan Description – Detroit Academy of Arts and Sciences participates in the Michigan Public School Employees' Retirement System (MPERS), at statewide, cost-sharing, multiple-employer defined benefit public employee retirement system governed by the State of Michigan that covers substantially all employees of the Academy. The system provides retirement, survivor and disability benefits to plan members and their beneficiaries. The MPSRES issues a publicly available financial report that includes financial statements and required supplementary information for the system. That report may be obtained by writing to the system at 7150 Harris, P.O. Box 30673, Lansing, MI 48909-8103.

Funding Policy – Employer contributions to the system result from the implementing effects of the School Finance Reform Act. Under these procedures, each school district or participating Public School Academy is required to contribute the full actuarial funding contribution amount to fund pension benefits, plus an additional amount to fund retiree health care benefit amounts on a cash disbursement basis. The pension benefit rate total was 17.74 percent for the period October 1, 2006 through September 30, 2007 of the covered payroll to the plan. Basic plan members make no contributions. Member Investment Plan (MIP) participants contribute at rates ranging from 3 percent to 4.3 percent of gross wages. The Academy's contributions to the MSPERS plan for the year ended June 30, 2007, was \$1,166,772.

(9) **CONTINGENT LIABILITIES**

During the year ended June 30, 2003, the Academy terminated its management services agreement with Edison Schools. At June 30, 2007, the Academy has a recorded liability of \$175,000 to Edison Schools. Other matters still exist and are pending resolution. Management does not believe any adjustments relating to these matters would be material to the basic financial statements.



GREGORY
TERRELL
& COMPANY

October 12, 2007

To the Board of Directors
Detroit Academy of Arts and Sciences
Detroit, Michigan

In planning and performing our audit of the financial statements of the Detroit Academy of Arts and Sciences (the "Academy") for the year ended June 30, 2007, in accordance with auditing standards generally accepted in the United States of America, we considered the Academy's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Academy's internal control. Accordingly, we do not express an opinion on the effectiveness of the Academy's internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. However, as discussed below, we identified certain deficiencies in internal control that we consider to be significant deficiencies.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned function, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the Academy's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the Academy's financial statements that is more than inconsequential will not be prevented or detected by the Academy's internal control. We consider the following deficiency to be significant deficiency in internal controls:


- During our audit we noted that the Academy does not maintain an integrated general ledger system. We recommend that a integrated general ledger system be maintained to capture all financial activity, including receivables, accounts payable and other accrued expenditures of the Academy.

Other Matters

- During our audit we noted that the Academy receives cash for various activities, including extracurricular activities and fundraising. Timely deposits of cash and monthly reconciliation of the related activity bank accounts are not being performed. In order to maintain proper internal control, the Academy should implement procedures that include the timely depositing of cash and reconciliation of the activity cash accounts.

This report is intended for the information of the Board of Directors. Management and the Michigan Department of Education and is not intended to be and should not be used by anyone other than these specified parties.

Very truly yours,


GREGORY TERRELL & COMPANY
Certified Public Accountants

DETROIT ACADEMY OF ARTS AND SCIENCES

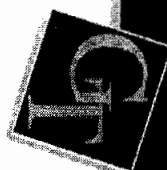
SINGLE AUDIT REPORT

JUNE 30, 2007

DETROIT ACADEMY OF ARTS AND SCIENCES
SINGLE AUDIT REPORT
JUNE 30, 2007

TABLE OF CONTENTS

	<u>Page(s)</u>
Independent Auditors' Report on Compliance with Requirements Applicable to each Major Program and Internal Control over Compliance in accordance with OMB Circular A-133	1-2
Independent Auditors' Report on Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statement performed in accordance with Government Auditing Standards	3-4
Schedule of Expenditures of Federal Awards	5
Notes to Schedule of Expenditures of Federal Awards	6
Supplemental Schedules - Schedule of Findings and Questioned Costs	7-9
Status of Prior Year Audit Findings	10-11



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**REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE TO EACH MAJOR
PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH
OMB CIRCULAR A-133**

To the Board of Directors of
Detroit Academy of Arts and Sciences

Compliance

We have audited the compliance of the Detroit Academy of Arts and Sciences (the "Academy") with the types of compliance requirements described in the U.S. *Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* that are applicable to each of its major federal programs for the year ended June 30, 2007. The Academy's major federal programs are identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of the Academy's management. Our responsibility is to express an opinion on the Academy's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in "Government Auditing Standards" issued by the Comptroller General of the United States; and OMB Circular A-133, *"Audits of States, Local Governments, and Non-Profit Organizations"*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the Academy's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on the Academy's compliance with those requirements.

In our opinion, the Academy complied, in all material respects, with the requirements referred to above that are applicable to its major federal programs for the year ended June 30, 2007. However, the results of our auditing procedures disclosed instances of noncompliance with those requirements which are required to be reported in accordance with OMB circular A-133.

Internal Control Over Compliance

The management of the Academy is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered the Academy's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133.

Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with applicable requirements of laws, regulations, contracts and grants that would be material in relation to a major federal program being audited may occur and not be detected within a timely period employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over compliance and its operation that we consider to be material weaknesses.

Schedule of Expenditures of Federal Awards

We have audited the general purpose financial statements of the Academy as of and for the year ended June 30, 2007, and have issued our report thereon dated October 12, 2007. Our audit was performed for the purpose of forming an opinion on the general purpose financial statements taken as a whole. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by OMB Circular A-133 and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.



GREGORY TERRELL & COMPANY
Certified Public Accountants

October 12, 2007



GREGORY
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**REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE
AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED
IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS**

To the Board of Directors
Detroit Academy of Arts and Sciences

We have audited the financial statements of Detroit Academy of Arts and Sciences (the "Academy") as of and for the year ended June 30, 2007, and have issued our report thereon dated October 12, 2007. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in "Government Auditing Standards", issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements of the Detroit Academy of Arts and Sciences (the "Academy") for the year ended June 30, 2007, in accordance with auditing standards generally accepted in the United States of America, we considered the Academy's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing and opinion on the effectiveness of the Academy's internal control. Accordingly, we do not express an opinion on the effectiveness of the Academy's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as discussed below, we identified certain deficiencies in internal control over financial reporting that we consider to be significant deficiencies.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned function, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the Academy's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the Academy's financial statements that is more than inconsequential will not be prevented or detected by the Academy's internal control. We consider the following deficiencies to be significant deficiencies in internal controls as noted in the accompanying schedule of findings and questioned costs as Item 2007-1.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the Academy's internal control.

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, we believe that the significant deficiency described above is not a material weakness.


Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Academy's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under "Government Auditing Standards".

We noted certain matters that we reported to management of the Academy in a separate letter dated October 12, 2007.

The Academy's response to the findings identified in our audit is described in the accompanying schedule of findings and questioned costs. We did not audit the Academy's response and, accordingly, we express no opinion on it.

This report is intended for the information of the Board of Directors, Management and the Michigan Department of Education and is not intended to be and should not be used by anyone other than these specified parties.


GREGORY TERRELL & COMPANY
Certified Public Accountants

October 12, 2007

**DETROIT ACADEMY OF ARTS AND SCIENCES
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2007**

Federal Grantor Pass Through Grantor Program Title Grant Number	Federal CFDA Number	Approved Grant Award Amount	Accrued or (Deferred) Revenue at July 1, 2006	Current Year Receipts (Cash Basis)	Current Year Expenditures	Adjustments / Transfers	Accrued or (Deferred) Revenue at June 30, 2007
Department of Agriculture Passed through the Michigan Dept of Education							
National School Lunch Program Project Number 061950041960 Project Number 061960041960	10.555	\$ 56,855	\$ 56,855	\$ 56,855	\$ -	\$ -	\$ -
Total		17,700	17,700	230,069	-	-	241,369
		74,555	96,855	74,555	230,069	-	241,369
Total Food and Nutrition Cluster		74,555	96,855	74,555	230,069	-	241,369
DEPARTMENT OF EDUCATION Passed through the Michigan Department of Education Office of Elementary and Secondary Education Program							
Table I - Part A - Improving Basic Programs Project # 061530 0506 Project # 061530 0506 Project # 061530 0607 Project # 071530 0607	84.010	112,454	13,472	13,472	-	-	-
		584,380	4,163	303,118	288,932	-	-
		102,576	-	53,300	162,676	-	40,106
		630,090	-	449,682	712,064	-	282,322
Total		1,830,100	17,635	810,649	1,113,512	-	311,518
Safe & Drug Free Schools Project # 01XXXX 0607	84.136	-	-	-	-	-	-
Total		15,775	-	6,525	15,775	-	9,250
		15,775	-	6,525	15,775	-	9,250
Table VI - Part A Innovative Programs Project # 060250 0506 Project # 070250 0607	84.290	10,700	-	10,700	10,109	-	-
Total		5,725	-	10,700	10,700	-	-
		16,425	-	10,700	10,700	-	-
Table II - Part D - Enhancing Education w/Tech Project # 064260 0506 Project # 074260 0607	84.318	12,816	-	-	12,816	-	12,816
Total		8,537	-	-	-	-	-
		21,343	-	-	12,816	-	12,816
Table II - Part A - Teacher/Principal Training Project # 060520 0506 Project # 060520 0506 Project # 060520 0607 Project # 070520 0607	84.367	78,851	47,533	47,533	-	-	-
		108,952	3,725	16,920	13,105	-	-
		71,132	-	-	47,792	-	47,792
		111,660	-	48,456	85,704	-	32,335
Total		269,095	46,758	107,909	146,721	-	85,120
Total Office of Elementary and Secondary Education Cluster		2,053,394	63,913	964,783	1,200,574	-	418,794
DEPARTMENT OF EDUCATION Passed through the Michigan Department of Education Office of Elementary and Secondary Education Program							
Wayne County REA IDEA Flowthrough-Special Education Grants to State Project # 06060504450 Project # 06070504450	84.027A	-	12,905	12,905	-	-	-
		149,168	-	117,245	149,168	-	11,823
Total Office of Elementary and Secondary Education Program		149,168	12,905	130,150	149,168	-	31,823
TOTAL FEDERAL AWARDS		\$ 2,277,117	\$ 133,623	\$ 1,140,408	\$ 1,797,617	\$ -	\$ 691,890

The accompanying notes are an integral part of this schedule.

DETROIT ACADEMY OF ARTS AND SCIENCES
NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
JUNE 30, 2007

(1) **SIGNIFICANT ACCOUNTING POLICIES**

The accompanying Schedule of Expenditures of Federal Awards presents the activity of federal financial assistance programs of the Detroit Academy of Arts and Sciences (the "Academy"), and is presented on the same basis of accounting as the basic financial statements. Federal awards received directly from federal agencies as well as federal awards passed through other agencies are included on the schedule. The information in this schedule is presented in accordance with the requirement of OMB Circular A-133, *Audit of States, Local Governments, and Non-Profit Organizations*. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the basic financial statements.

(2) **GRANT SECTION AUDITOR'S REPORT**

The Academy utilized Form R-7120 in preparing the schedule of expenditures of federal awards. Unreconciled differences, if any, have been disclosed to the auditor.

(3) **MAJOR PROGRAMS**

Major programs were determined in accordance with the Office of Management and Budget (OMB) Circular A-133, *"Audit of States, Local Governments and Non-Profit Organizations"*.

DETROIT ACADEMY OF ARTS AND SCIENCE
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
JUNE 30, 2007

Section I - Summary of Auditors' Results

Financial Statements

Type of auditors' report issued: _____

Unqualified _____

Internal control over financial reporting:

Material weakness identified?

_____ yes X no

Significant deficiency identified

X yes _____ none reported

not considered to be material weakness?

_____ yes X no

Expenditures of Federal Awards

Internal Control over major programs:

Material weakness identified?

_____ yes X no

Significant deficiency identified

_____ yes X none reported

not considered to be material weakness?

Type of auditors' report issued on compliance for major programs: _____

Unqualified _____

Any audit findings disclosed that are required to reported in accordance with Circular A-133, Section .510(a)?

_____ yes X no

Identification of major programs:

CFDA Number

Name of Federal Program

84.010

Title I Program

Dollar threshold used to distinguish between Type A and Type B programs:

\$300,000

Auditee qualified as low-risk auditee?

X yes _____ no

DETROIT ACADEMY OF ARTS AND SCIENCES
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
JUNE 30, 2007

Section II – Financial Statement Audit Findings

<u>Reference Number</u>	<u>Findings</u>	<u>Significant Deficiency</u>	<u>Management's Response</u>
07-1		<p>During our audit we noted that the Academy does not maintain an integrated general ledger system. We recommend that a integrated general ledger system be maintained to capture all financial activity, including receivables, accounts payable and other accrued expenditures of the Academy.</p>	<p>DAAAS agrees with the comment and in accordance has moved its accounting functions to the VYCRESA SMART system as of July 1, 2007, and is fully utilizing that system's integrated general ledger to now additionally capture accounts receivable, accounts payable, and other accrued expenditures.</p>

DETROIT ACADEMY OF ARTS AND SCIENCES
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
JUNE 30, 2007
(Continued)

Section III – Federal Program Audit Findings

None

DETROIT ACADEMY OF ARTS AND SCIENCES
STATUS OF PRIOR YEAR AUDIT FINDINGS
JUNE 30, 2007

PRIOR YEAR FINDINGS

Financial Statement Audit Findings

<u>Reference Number</u>	<u>Findings</u>	<u>Status</u>
2006-1	<u>Reportable condition</u> The monthly accounting for the component unit of the Academy was not completed during the year, which caused a delay in compiling the financial statements, and they were subsequently filed late.	Resolved
2006-2	<u>Reportable condition</u> The Academy employees involved in the purchasing system were not consistently following the Academy's purchasing procedures. Some purchase orders were also dated after the date of service indicated on the related invoice. Academy personnel were unable to generate copies of purchase orders from the system to support invoice due to lack of training and hard copies of the purchase orders were not being maintained.	Resolved
2006-3	<u>Reportable condition</u> The Academy receives cash and checks for various programs, including food service, latchkey, extracurricular activities, and fund-raising. Procedures to account for handling this remote cash are inconsistent among the various departments. Also, timely deposits of cash and reconciliation of revenue are not being performed.	Partially resolved.

DETROIT ACADEMY OF ARTS AND SCIENCES
STATUS OF PRIOR YEAR AUDIT FINDINGS
JUNE 30, 2007
(Continued)

PRIOR YEAR FINDINGS – cont'd

Financial Statement Audit Findings – cont'd

2006-4

Material weakness

The Academy prepares bank reconciliations; however, it does not maintain cash accounts in a general ledger system and therefore is not able to agree the reconciled bank balances to an independent tracking of daily cash activity. Also, bank reconciliations are not performed.

Status

Resolved.

2006-5

Material weakness

The Academy does not maintain an integrated general ledger system that captures daily financial activity. A cash disbursements system is utilized by the Academy to capture expenditures; however, it is not linked to a complete general ledger system and numerous post-closing entries and reclassifications are needed to reconcile expenditures to FID reporting requirements. In order to maintain adequate internal control, the general ledger system should be maintained to accurately capture all financial activity, including posting of cash disbursements, cash receipts, payroll, revenue, and balance sheet accounts.

Status

Partially resolved